



Q4 2022

Canada Cap Rate Report



National Investment Trends

Q4 2022

The story of the fourth quarter of 2022 was the impact of rate hikes and increased borrowing costs in the investment market. Investment volume slowed dramatically, and the market adjusted to a new rate environment. The +4% increase in the Bank of Canada overnight rate over 2022 was a surprise to virtually every analyst and investor, with seven consecutive rate hikes fundamentally changing the sales environment. The “emergency rates” of the pandemic ended abruptly, as did the fiscal stimulus that accompanied lockdowns and school closures. Unfortunately inflation did not end abruptly, and looms over 2023 as a potential obstacle for investors.

Expectations have now changed profoundly, with rising or flat cap rates expected for every asset in every market. While 2023 is very unlikely to repeat the shock of 2022 with unprecedented rate hikes, the possibility remains of continued tightening. While real estate investors would welcome a low inflation environment, the path to “normal” inflation is still not completely clear.

Reflecting this uncertainty, many assets are now selling at 7+% cap rates, including several markets for community retail, suburban B office, and even downtown office assets in many markets. Double digit cap rates seem possible in 2023 for a few select assets, as the impact of a new rate environment is felt in every market. Yields continued to rise for office, where hybrid work appears to be the norm rather than a temporary interlude. While return-to-office momentum continues, it has been a slow path, especially for the denser downtowns and financial cores dependent on transit usage. Major cities have lagged in return-to-office, and downtown office vacancy rates are above suburban in several markets such as Vancouver, Calgary, Waterloo and Winnipeg.

The strongest assets of the pandemic saw the largest adjustment upward, with industrial and multi-family yields rising in many markets. These assets have seen a divergence between the leasing side – still very strong as fundamentals and demographics create strong demand for space – and the investment side, where low yields and rapidly rising rates are squeezing some investors. The outlook is most bullish for industrial, with most markets forecasting no change in cap rates next quarter. Industrial leasing remains at record low vacancies across the country, even with all-time high levels of new spec development coming to market.

The macro environment remains largely favourable, with a robust job market, strong population growth, and continued “pent up demand” for travel, entertainment, and big-ticket purchases (e.g., cars). Retail sales remain high, and immigration targets have been further revised upward from the already high pre-pandemic levels. While chaos at airports is concerning, it reflects an extremely rapid return to normal or even higher levels of demand for hospitality and travel, reflected in very strong revenue numbers for Canadian hotels. While a recession has been discussed for several quarters, there have been no mass layoffs or austerity cutbacks in provincial or federal governments.

Key Findings

- Cash-rich investors may benefit from the 2023 rate environment, as the highly leveraged investor may be facing some difficult refinancing and borrowing situations.
- Canadian government bond yields are at 15 year highs, with the cost of capital back to the levels of the Great Recession in 2008. Economists expect at least one more rate hike in 2023.
- Inflation remains at more than double the target rate, though it has declined from a peak earlier in 2022.

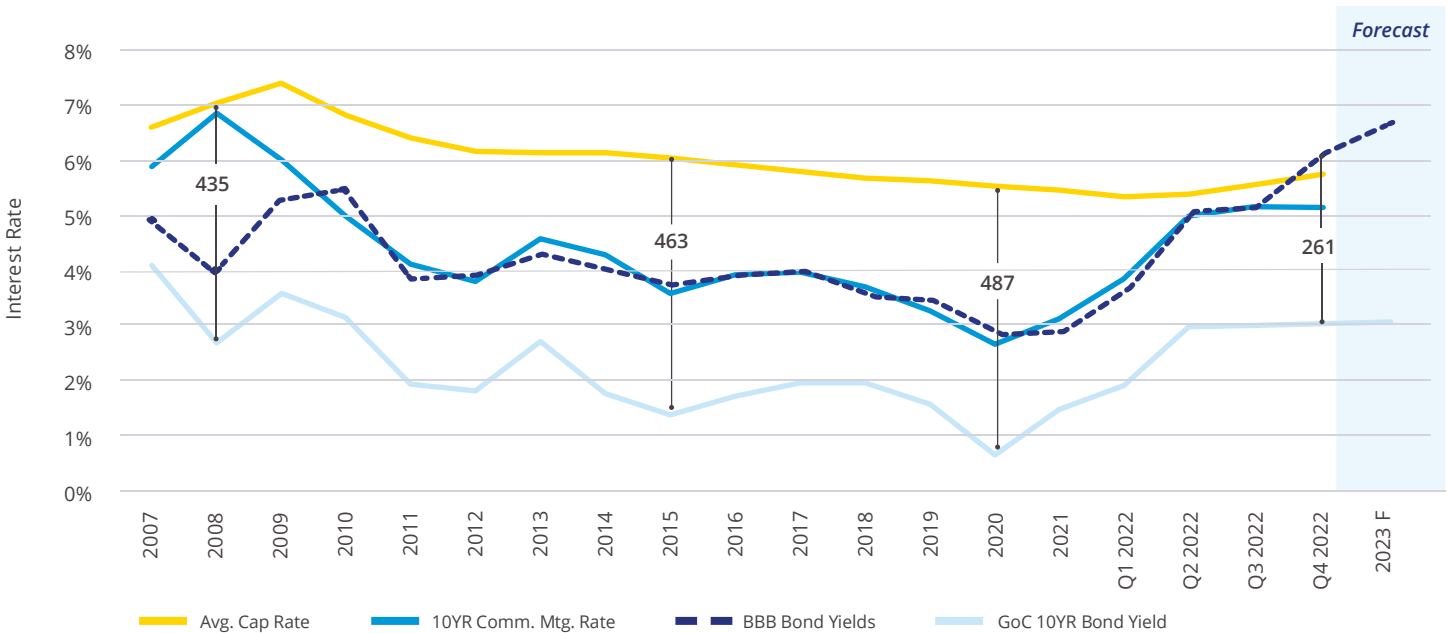
Hotels Q4 Cap Rate Report

Canada's lodging industry ended 2022 on a high note with a notable recovery across all key operating metrics. The uptrend continued into the fourth quarter, led by robust ADR performance which surpassed 2019 levels by nearly 10% through year-to-date November, according to data from STR. While the recovery has not been even for all segments and markets, lodging demand continues to rise despite pressure from rising inflation and economic concerns with additional momentum from the ongoing return of major events and rebounding cross-border traffic, setting the stage for a profitable year in 2023. With the sustained return of operating cashflow, Colliers will resume the reporting of normalized cap rate trends in the first quarter of 2023.

The rising cost of capital is influencing investment decisions; however, there is strong interest from the lending community to place money in the hotel asset class with well-capitalized buyers. Preliminary investment data for 2022 points towards national volume in the \$1.4 billion range with mid-market deals driving the lion's share of activity. Additional coverage of lodging investment trends will be released in Colliers Hotels upcoming Q4 2022 INNvestment Canada Hotel Report and 2023 Canadian Hotel Investment Report.

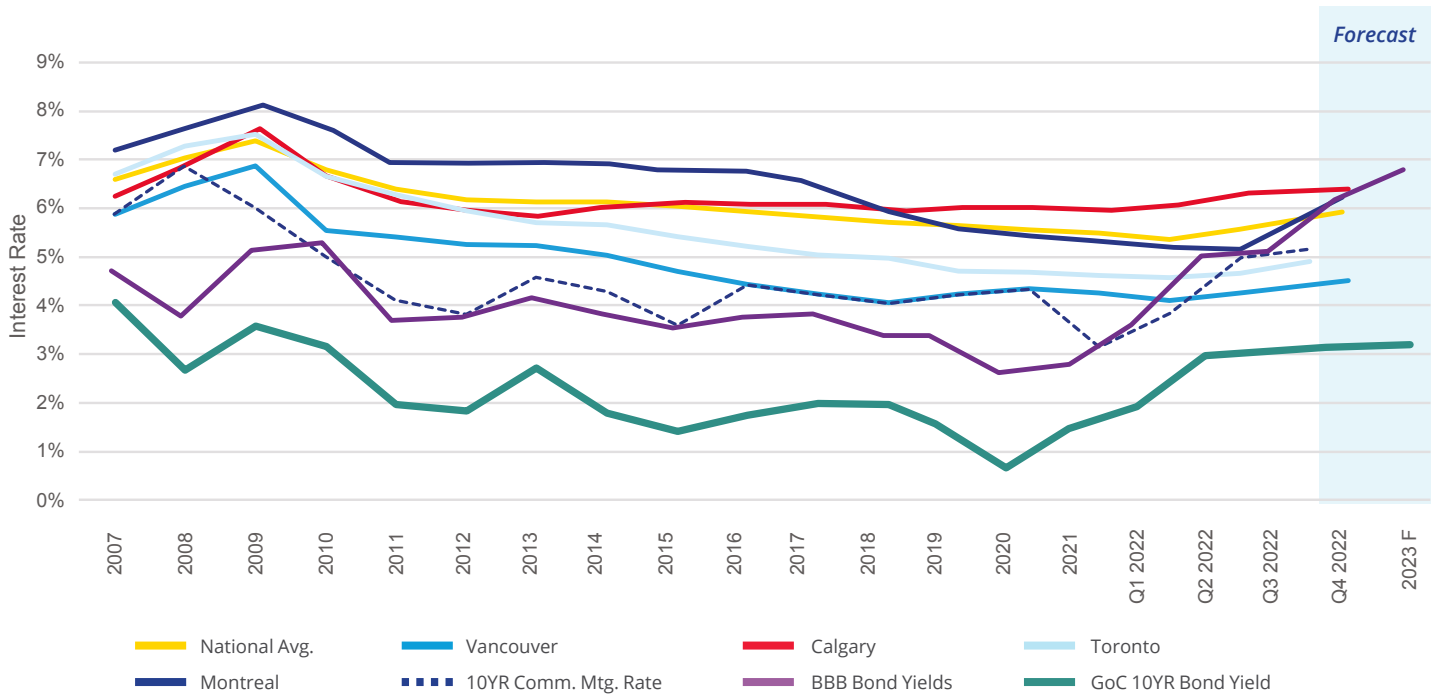
Interest Rates vs Cap Rates

Bond yields rose sharply this quarter, closing the gap to the national all-asset cap rate, now at 241bps.



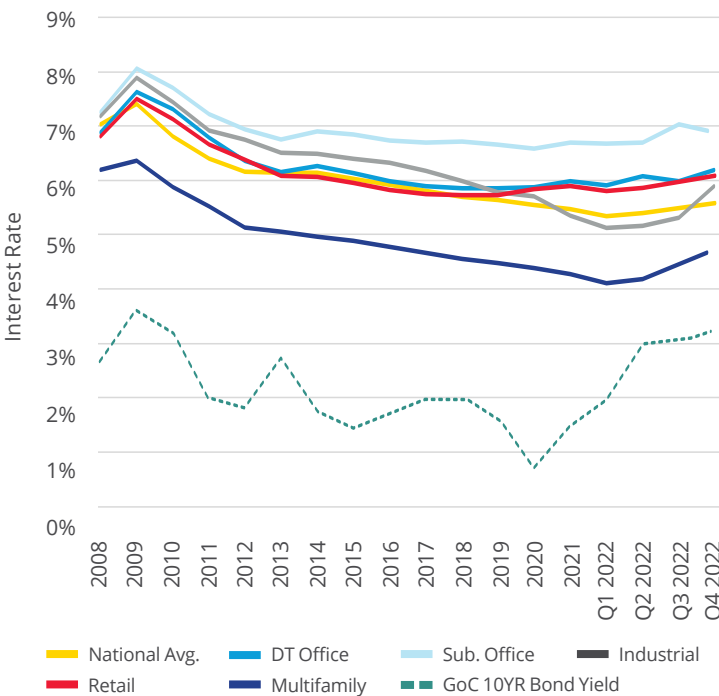
Source: Colliers Cap Rate Report, Q4 2022, Bank of Canada and Big 6 Banks, January 2023

Interest Rates vs Cap Rates by Market



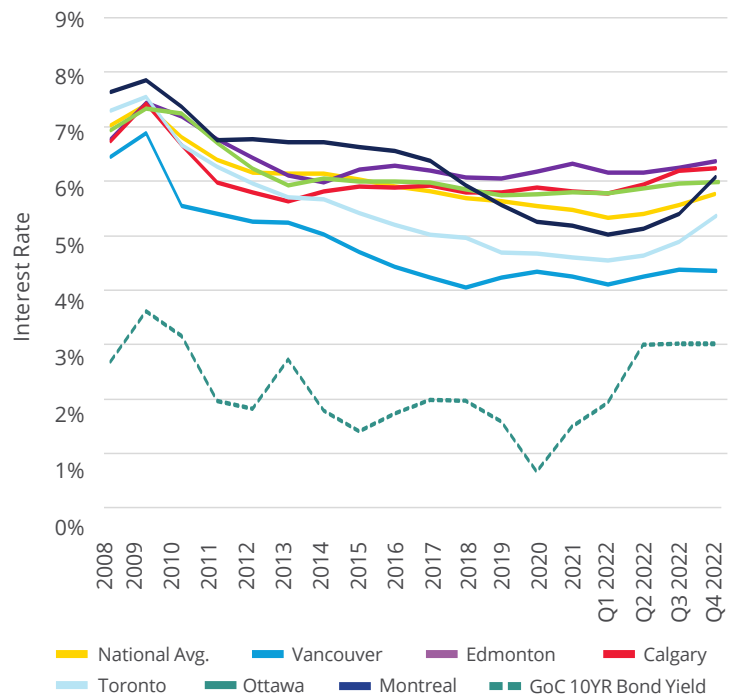
Source: Colliers Cap Rate Report, Q4 2022, Bank of Canada and Big 6 Banks, January 2023

Average National Cap Rates by Asset Type



Average National Cap Rates by Market

- Vancouver spread at 120 bps, 132 bps below 15-yr avg.
- Calgary spread at 303 bps, 82 bps below 15-yr avg.
- Toronto spread at 218 bps, 100 bps below 15-yr avg.
- Montreal spread at 287 bps, 113 bps below 15-yr avg.



Source: Colliers Cap Rate Report, Q3 2022, Bank of Canada, October 2022



Toronto

Q4 2022

What's Trending?

- The year closed with decreased sales volumes across most asset classes as uncertainty surrounding interest rates and correspondingly investment returns persisted.
- A bright spot for the GTA was the industrial sector, which saw renewed activity this quarter as several larger scale transactions closed before the end of the year. The largest transaction was the portfolio sale from TD Greystone Asset Management that saw nearly 1.5 million square feet purchased by Pure Industrial for almost \$430 million. In addition, Investors Group sold 15 assets in Vaughan to CanFirst Capital for just over \$222 million. Lastly, the sale of 1330 Martin Grove Road to Vestcor from Cartera has set the new benchmark for the time being for trophy product.
- Core retail product that is well located and well tenanted remains in high demand as is evidenced by the purchase of both Shoppes on Queen West and 4000 Highway 7 by Choice REIT. Combined the transactions accounted for over \$70 million in value.
- The multifamily investment sector has cooled dramatically as only \$235 million was transacted during the quarter. Despite the lower investment volumes and softening cap rates, owners are seeing robust rental growth as rental demand has continued to increase to new peaks.
- In the office sector softer demand and a lack of robust return to work in the downtown core has weakened vacancy over the course of the year. Despite this, rental rates have remained stable and even increased as landlords continue to incentivize tenants.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.25%	5.75%	5.50%	6.00%	↔	↔

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.00%	7.00%	7.50%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
4.50%	5.00%	5.00%	5.75%	↔	↔

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
5.50%	6.75%	5.50%	6.50%	5.50%	6.50%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
3.75%	4.25%	3.50%	4.25%	▲	▲

Montréal

Q4 2022

What's Trending?

- The office market has remained relatively stable with very little transactions occurring since the Cominar transaction that lead Q1 2022. Office rents have stabilized, and landlords are beginning to fill the anticipated negative absorption throughout 2022 that the pandemic had created. Occupancy rates are expected to eventually return to pre-COVID levels. Overall vacancy rates have hit a 10 year high in the CBD markets due to a larger supply of sub lease space. It is however, expected that by mid 2024 the market should return to a more stable and equal rental market.
- The retail sector had seen a steady level of sales activity throughout 2022 which (coupled with the Cominar transaction) has continued into Q4. The biggest challenge in the retail sector has been finding enough employees to fill previously vacated positions. Sales volumes in Q4 2022 continued to transact with a reasonable level of activity in all sectors of the market. Small strip centres are now starting to trade as are community and grocery anchored investments, however, those limited transactions that did occur did not see any upward pressure on capitalization rates.
- The multi-family markets have seen the biggest impact of the current interest rate increases. Developers are now putting projects on hold due to the higher borrowing costs, the increased labour costs and the fact that inflation, which remains to be tamed, causes dramatic increases in raw material costs. The recent increases in the Bank of Canada's overnight rate are starting to have an impact on the multifamily sector, as fixed rate mortgages as well as floating rate credit lines have now reached levels not seen in the past several years. This is expected to impact capitalization rates in the short to mid term (6 – 18 months).

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.50%	6.00%	6.00%	6.75%	◀▶	◀▶

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.50%	7.00%	7.75%	◀▶	◀▶

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
4.50%	5.50%	5.00%	6.00%	▲	▲

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
5.50%	6.50%	6.50%	7.00%	7.00%	7.50%	◀▶	◀▶	◀▶

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
5.00%	6.00%	5.50%	6.50%	▲	▲

Vancouver

Q4 2022

What's Trending?

- The largest closed retail transaction for Q4 2022 was Abbotsford Power Centre, a 220,000 SF power centre in south Abbotsford anchored by Lowe's Winner's/ Homesense and Petsmart for over \$50 million.
- Industrial transaction activity increased moderately in Q4 2022. Larger sales include 5830 & 5850 Byrne Road/7303-7315 Meadow Avenue in Burnaby to the Beedie Group, 3333 Bridgeway Street in Vancouver for \$38.25 million, 7950 Enterprise Street in Burnaby for \$21.1 million and 851 Terminal Avenue in Vancouver for \$14.8 million. Owner-user (both strata and non-strata) buyers also remained active.
- The office sale market was quiet for larger investment transactions. Similar to industrial, owner-user (primarily strata) remains active. Notable deals include 301-321 Sixth Street in New Westminster for \$22.05 million and 95 Schooner Street in Coquitlam for \$10.25 million.
- Multi-family sales velocity increased from Q3 with Driftwood Apartments in Kitsilano selling for \$35.25 million, Clairmont/Georgian Apartments in South Granville selling for \$29.5 million. Manulife Investment Management also acquired Spire Landing; a 95-unit purpose built rental project in Vancouver's Sunset neighbourhood that is one of Canada's largest Passive House multi-unit developments.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
3.50%	4.50%	3.50%	4.50%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.00%	6.00%	5.50%	6.50%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
3.75%	4.25%	4.00%	4.50%	◀▶	◀▶

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
4.50%	6.50%	4.25%	5.75%	3.75%	5.25%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
2.75%	3.50%	3.00%	4.00%	▲	▲



Calgary

Q4 2022

What's Trending?

- Alberta's economic outlook remained positive in the fourth quarter with some cautious optimism heading into 2023. Alberta is projected to lead the country in growth, however the threat of inflation and rising interest rates has not been ignored by investors.
- Although financing rates remained relatively stable this quarter, the run up in borrowing costs in the first part of the year put downward pressure on leveraged real estate yields and put upward pressure on capitalization rates.
- Transaction volume remained slow in Q4 as investors tried to get a sense of where things were headed with the economy.
- Owner user demand remained strong as supply of available inventory remained tight.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.25%	7.25%	7.25%	9.25%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.25%	7.25%	8.75%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.00%	6.00%	5.75%	7.25%	◀▶	◀▶

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
5.50%	6.50%	5.50%	6.50%	5.75%	7.00%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
4.75%	5.25%	5.00%	5.75%	▲	▲



Edmonton

Q4 2022

What's Trending?

- The Edmonton office market experienced a mildly positive 2022. Although the Downtown has suffered due to people working from home, the suburban market has thrived. For the first nine months of the year, positive absorption of 212,082 square feet has been recorded in Metro Edmonton. Rents have stabilized but capitalization rates will most likely nudge higher in 2023.
- Net absorption of industrial space this year is expected to approach five million square feet in Metro Edmonton and the vacancy rate is set to fall below 4%. Rental rates continue to trend higher and new construction will approach four million square feet. Capitalization rates have not increased tangibly although recent interest rate hikes may cause upward pressure in 2023.
- Shopping centre sales slowed in 2022 due primarily to interest rate concerns. Capitalization rates increased marginally during the year although this increase was muted by the renewed expectation of rental increases. Significant new construction, particularly in Southwest Edmonton, will result in a relatively balanced market in 2023.
- High levels of inter-provincial and international migration continue to benefit the multi-family market in Metro Edmonton. Furthermore, stalling house prices and rising interest rates have resulted in a greater pool of renters. Although capitalization rate premiums in the city continue to entice investors from other provinces, increases to interest rates have resulted in elevated capitalization rates.

Downtown Office					
Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.75%	8.00%	7.25%	9.00%	▲	▲

Suburban Office					
Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.75%	7.75%	7.00%	8.50%	▲	▲

Industrial					
Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.50%	6.50%	6.00%	7.00%	▲	▲

Retail								
Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
5.75%	6.75%	5.75%	6.75%	5.75%	6.75%	▲	▲	▲

Multi-Family Apartment					
High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
4.50%	5.50%	4.75%	5.75%	▲	▲



Ottawa

Q4 2022

What's Trending?

- Sales activity in Ottawa has slowed dramatically with the increase in financing costs and ongoing high construction costs.
- Demand for new build multi-family assets in Ottawa continues out pace supply, buyers are betting on rental rates continuing to rise, which are keeping capitalization rates lower than otherwise would be apparent. Further with the increased cost of financing and ongoing high construction costs the financial feasibility of constructing new multi-family buildings is increasingly challenging. This will inevitably have an impact on the values of high density development lands throughout the City.
- The retail market continues to evolve, though Downtown retail vacancy continues to be at a very high level, suburban vacancy remains low. Retail demand has shifted away from the Downtown core and now many suburban retailers are seeing an increase in demand. With that, investor demand continues to be focused on grocery anchored retail plazas and particularly on retail sites that have short to medium term redevelopment potential on some or all of the site.
- Rental rates in the Industrial Market have risen substantially over the past 12 months but Ottawa is still limited by a lack of serviced industrial land and ongoing high construction costs. Most new product being brought to market is being leased quickly and investor demand for industrial buildings throughout the City remains high.
- The Office market continues to struggle with reduced demand from buyers and tenants alike. Though the Federal Government recently announced that all staff will be required to work 2-3 days a week in the office it still remains to be seen how and if the workers will return. With that, even being in the office 2-3 days per week will allow the Federal Government (the largest occupier of office in Ottawa) to adopt shared space models which could result in a significant reduction in the amount of space they occupy. The office market continues to be the most uncertain of the major asset classes in Ottawa and as such capitalization rates are likely to further increase.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.75%	7.00%	6.50%	7.50%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.50%	7.00%	7.75%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.25%	6.25%	5.75%	6.50%	◀▶	◀▶

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
6.25%	6.75%	6.25%	6.75%	6.25%	7.00%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
4.00%	5.00%	3.75%	5.00%	▲	▲

Winnipeg

Q4 2022

What's Trending?

- Cap rates in Winnipeg have begun to increase due to the rising interest rate environment which is consistent with other markets across Canada. As a result, transaction volume has also decreased in the second half of the year. Within this rising interest rate environment we are also seeing vacancy rates decrease over the previous period a year ago, specifically industrial vacancy is the lowest it has been in years.
- With a higher cost of borrowing the amount of new construction projects has slightly decreased with some developers opting to pause the start of their projects due to the higher cost of construction financing.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.50%	6.50%	7.50%	↔	↔

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
-	-	6.50%	7.50%	↔	↔

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.00%	7.00%	6.50%	7.50%	↔	↔

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
6.25%	7.00%	6.25%	7.00%	6.25%	7.00%	↔	↔	↔

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
5.50%	6.50%	5.50%	6.50%	↔	↔



Halifax

Q4 2022

What's Trending?

- This most recent quarter has continued a trend of 'wait and see' with regards to most asset classes in the Halifax market, however investors continue to show confidence in the industrial market and interest in other sectors. Well-tenanted, well-located developments of all classes especially are attracting broader investor interest than has historically been the case in Atlantic Canada.
- The office market remains challenged in Halifax, however the previous quarter has continued a general trend towards modest declines in vacancy and correlated upward pressure on rents. These positive metrics have been minimal, however they have persisted for several quarters now after a long period of stagnation. Demand for high-quality space with good amenities remains strong, however ongoing major construction in the downtown core related to the Cogswell Interchange redevelopment is likely to shift this demand somewhat to suburban areas until completion.
- The multi-family market remains active as rental rate growth in Atlantic Canada leads the nation. With the temporary rent cap set to remain in place throughout 2023 near-term investment activity has been somewhat slowed, however construction continues at an unprecedented pace region-wide, even as inflation and labour shortages act as drags on new development.
- The industrial market in the Halifax region continues to reflect a lack of availability, especially of vacant land, as Phase 12 of Burnside has sold out and new developments are generally already fully leased. Phase 13 of Burnside and the Bayers Lake Business Park expansion are expected to come online in 2023-2024 to alleviate these pressures somewhat but rental rates and vacancy continues to reach unprecedented levels with high interest in any space put on the market, either for lease or purchase.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	8.00%	7.50%	8.50%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	8.00%	7.50%	8.50%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.00%	6.25%	5.50%	7.00%	◀▶	◀▶

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
6.00%	7.00%	6.00%	7.50%	6.25%	7.25%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
4.00%	4.50%	4.25%	4.50%	◀▶	◀▶



Victoria

Q4 2022

What's Trending?

- At the close of 2022, challenging economic indicators have pressured many market participants to stay on the sidelines. These challenges include the rising interest rate environment, inflationary costs and the resulting cost of capital.
- The multifamily market was mostly driven by portfolio sales, with acquisitions of existing housing stock offering future upside through rental turnover and efficiency upgrades to reduce the operating costs.
- The \$40M portfolio sale of three apartment buildings in Victoria and Saanich totaling 126 units in November traded at an approximate 4% capitalization rate.
- The industrial market remains underserved by available product, with continuing downward pressure on vacancy rates and rising rental costs.
- Developer interest in Victoria core development land remains a strong indicator of confidence in future growth as evidenced by the sale of the former Pacific Mazda site on the eastern periphery of downtown Victoria. This fully entitled site, approved for 376K SF, transacted at \$44.5 Million and was the largest multifamily land sale this quarter.
- In the retail market, the sale of 1450 Government Street, located in Victoria's old town district, reflected a 6% capitalization rate, more or less.
- At the start of 2023, indications of overall confidence in the Greater Victoria investment market remain positive, with a flight to quality and redevelopment potential being the most desirable investment acquisitions.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.50%	5.75%	5.75%	6.00%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.75%	6.00%	6.00%	6.25%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
4.25%	4.75%	4.50%	5.25%	▲	▲

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
5.75%	6.25%	5.50%	6.00%	5.50%	6.00%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
3.75%	4.50%	3.50%	4.25%	▲	▲



Waterloo

Q4 2022

What's Trending?

- Investment sales volumes are down drastically year over year. This is due to the interest rate hikes that started in the spring and continued throughout 2022. Many Buyers and Sellers are on the sidelines waiting to understand where market cap rates are, or maybe more accurately, where they will end up.
- We have seen office fundamentals improve over the last year and that is starting to drive early movers to explore office purchases. We have also started to see conversions of office to other uses, most notably residential.
- By the end of the year even the red-hot industrial market started to slow down. The fundamentals are still very strong, with vacancy below 0.5%. However, buyers are being affected by both the interest rate increases and the slowing of rental rate growth.
- The retail market is one that is ripe for early adopters and developers that see potential in redeveloping and increasing density on well-located sites.
- Multifamily has also dropped in sales volume. Cap rates have moved up slightly. However, rental rates continue to increase significantly, and that is where buyers are expecting to add value.

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.00%	7.00%	7.50%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.25%	6.75%	6.50%	7.00%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
4.50%	5.00%	5.00%	5.50%	▲	▲

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
6.00%	6.75%	5.75%	6.50%	6.75%	8.00%	▲	▲	▲

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
4.00%	4.75%	4.25%	5.00%	▲	▲



Quebec City

Q4 2022

What's Trending?

- The last quarter of 2022 continued the previous quarter's trend, affected by successive interest rate increases and slowing sales volumes. However, rents continue to rise and vacancy rates remain low, attenuating the observed increases in overall cap rates. As a result, property values are expected to remain stable into the beginning of 2023.
- Rising interest rates are also impacting the office market, resulting in higher overall cap rates. However, rents and vacancies remain stable. The combination of these two factors will result in a slight decrease or stagnation in the value of office buildings in the short to medium term.
- Despite recent interest hikes, no obvious sign of increase was observed in retail cap rates over the last quarter in Quebec City. As an employment market secured by massive governmental and insurer jobs is helping to maintain the retail market and sales volumes.
- Although multifamily vacancy rates are below market equilibrium, this asset category is one of the most affected from the latest interest rate hikes. Relying on leverage and capitalization for a long time, developers are having a hard time financing new projects, with a stronger focus on coverage ratios now. Hence, new projects are harder to develop, and it shall remain so in the upcoming

Downtown Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.25%	7.25%	6.50%	7.75%	▲	▲

Suburban Office

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
6.50%	7.75%	6.75%	7.75%	▲	▲

Industrial

Class A		Class B		Q4 Prediction	
Low	High	Low	High	A	B
5.00%	5.75%	5.25%	6.75%	▲	▲

Retail

Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q4 Prediction		
Low	High	Low	High	Low	High	R	G	N
5.75%	7.00%	6.50%	7.50%	6.75%	7.75%	◀▶	◀▶	◀▶

Multi-Family Apartment

High-Rise		Low-Rise		Q4 Prediction	
Low	High	Low	High	H	L
4.25%	5.00%	4.75%	5.50%	▲	▲

Canada Cap Rates

Q4 2022

Downtown Office							
Market	Class A		Class B		Q1 2023 Prediction		
City	Low	High	Low	High	Class A	Class B	
Toronto	5.25%	5.75%	5.50%	6.00%	↔	↔	
Montréal	5.50%	6.00%	6.00%	6.75%	↔	↔	
Vancouver	3.50%	4.50%	3.50%	4.50%	▲	▲	
Calgary	6.25%	7.25%	7.25%	9.25%	▲	▲	
Edmonton	6.75%	8.00%	7.25%	9.00%	▲	▲	
Ottawa	5.75%	7.00%	6.50%	7.50%	▲	▲	
Winnipeg	6.50%	7.50%	6.50%	7.50%	↔	↔	
Halifax	6.50%	8.00%	7.50%	8.50%	▲	▲	
Victoria	5.50%	5.75%	5.75%	6.00%	▲	▲	
Waterloo	6.50%	7.00%	7.00%	7.50%	▲	▲	
Quebec City	6.25%	7.25%	6.50%	7.75%	▲	▲	

Suburban Office							
Market	Class A		Class B		Q1 2023 Prediction		
City	Low	High	Low	High	Class A	Class B	
Toronto	6.50%	7.00%	7.00%	7.50%	▲	▲	
Montréal	6.50%	7.50%	7.00%	7.75%	↔	↔	
Vancouver	5.00%	6.00%	5.50%	6.50%	▲	▲	
Calgary	6.50%	7.25%	7.25%	8.75%	▲	▲	
Edmonton	6.75%	7.75%	7.00%	8.50%	▲	▲	
Ottawa	6.50%	7.50%	7.00%	7.75%	▲	▲	
Winnipeg	-	-	6.50%	7.50%	↔	↔	
Halifax	6.50%	8.00%	7.50%	8.50%	▲	▲	
Victoria	5.75%	6.00%	6.00%	6.25%	▲	▲	
Waterloo	6.25%	6.75%	6.50%	7.00%	▲	▲	
Quebec City	6.50%	7.75%	6.75%	7.75%	▲	▲	

Canada Cap Rates

Q4 2022

Industrial							
Market	Class A		Class B		Q1 2023 Prediction		
City	Low	High	Low	High	Class A	Class B	
Toronto	4.50%	5.00%	5.00%	5.75%	↔	↔	
Montréal	4.50%	5.50%	5.00%	6.00%	▲	▲	
Vancouver	3.75%	4.25%	4.00%	4.50%	↔	↔	
Calgary	5.00%	6.00%	5.75%	7.25%	▲	▲	
Edmonton	5.50%	6.50%	6.00%	7.00%	▲	▲	
Ottawa	5.25%	6.25%	5.75%	6.50%	↔	↔	
Winnipeg	6.00%	7.00%	6.50%	7.50%	↔	↔	
Halifax	5.00%	6.25%	5.50%	7.00%	↔	↔	
Victoria	4.25%	4.75%	4.50%	5.25%	▲	▲	
Waterloo	4.50%	5.00%	5.00%	5.50%	▲	▲	
Quebec City	5.00%	5.75%	5.25%	6.75%	▲	▲	

Retail									
Market	Regional/Power		Grocery/Community		Neighbourhood/Strip		Q1 2023 Prediction		
City	Low	High	Low	High	Low	High	R	G	N
Toronto	5.50%	6.75%	5.50%	6.50%	5.50%	6.50%	▲	▲	▲
Montréal	5.50%	6.50%	6.50%	7.00%	7.00%	7.50%	↔	↔	↔
Vancouver	4.50%	6.50%	4.25%	5.75%	3.75%	5.25%	▲	▲	▲
Calgary	5.50%	6.50%	5.50%	6.50%	5.75%	7.00%	▲	▲	▲
Edmonton	5.75%	6.75%	5.75%	6.75%	5.75%	6.75%	▲	▲	▲
Ottawa	6.25%	6.75%	6.25%	6.75%	6.25%	7.00%	▲	▲	▲
Winnipeg	6.25%	7.00%	6.25%	7.00%	6.25%	7.00%	↔	↔	↔
Halifax	6.00%	7.00%	6.00%	7.50%	6.25%	7.25%	▲	▲	▲
Victoria	5.75%	6.25%	5.50%	6.00%	5.50%	6.00%	▲	▲	▲
Waterloo	6.00%	6.75%	5.75%	6.50%	6.75%	8.00%	▲	▲	▲
Quebec City	5.75%	7.00%	6.50%	7.50%	6.75%	7.75%	↔	↔	↔

Canada Cap Rates

Q4 2022

Multi-Family Apartment						
Market	High-Rise		Low-Rise		Q1 2023 Prediction	
City	Low	High	Low	High	Class A	Class B
Toronto	3.75%	4.25%	3.50%	4.25%	▲	▲
Montréal	5.00%	6.00%	5.50%	6.50%	▲	▲
Vancouver	2.75%	3.50%	3.00%	4.00%	▲	▲
Calgary	4.75%	5.25%	5.00%	5.75%	▲	▲
Edmonton	4.50%	5.50%	4.75%	5.75%	▲	▲
Ottawa	4.00%	5.00%	3.75%	5.00%	▲	▲
Winnipeg	5.50%	6.50%	5.50%	6.50%	◀▶	◀▶
Halifax	4.00%	4.50%	4.25%	4.50%	◀▶	◀▶
Victoria	3.75%	4.50%	3.50%	4.25%	▲	▲
Waterloo	4.00%	4.75%	4.25%	5.00%	▲	▲
Quebec City	4.25%	5.00%	4.75%	5.50%	▲	▲

Glossary

Cap Rate

A capitalization rate is a property's net operating income for the 12 months following the date of sale divided by the purchase price. Cap rate range estimates in this report are provided by appraisers in their respective markets and take into consideration recent transactions, as well as investor sentiment.

Office

Downtown Class A

Office buildings, predominantly high-rise, situated within the Central Business District (CBD), that offer high-quality construction and amenities; large floor plates; modern, efficient systems; and superior accessibility. These buildings typically compete for larger, top-tier tenants and command among the highest rental rates.

Downtown Class B

Office buildings, commonly high-rise, in the CBD, that offer average to good-quality construction and amenities, but tend to be more dated, with fewer features and less prominent locations. These buildings tend to compete for smaller to mid-size tenants seeking average to good-quality space at more economical rent rates.

Suburban Class A

Office buildings located outside of the CBD offering high-quality construction and amenities that appeal to mid-size to larger, upper-tier tenants seeking non-central locations

Suburban Class B

Office buildings outside of the CBD offering average to good-quality construction and amenities appealing to smaller to mid-size tenants seeking peripheral locations and discounted rent rates

Industrial

Class A

Newer, fully-featured industrial buildings of high-quality steel and concrete construction, with modern, efficient mechanical and electrical systems; high ceilings; good loading capability; air-conditioned offices; and extensive yard storage/truck marshalling areas

Class B

Average to good-quality industrial buildings, typically of somewhat dated construction, providing good-quality functional space, but with less extensive features. These buildings are usually characterized by lower clear heights and fewer shipping doors.

Retail

Regional Shopping Centre

Larger enclosed malls characterized by multiple anchors (typically including department stores and/or larger discount stores/mini-anchors) complemented by numerous smaller retailers (CRUs). The CRUs are generally oriented inwardly with stores connected by internal walkways (malls) and with numerous common entrances. They tend to reflect a high proportion of national tenants, with a broad mix of categories.

Power Centre

Larger "open air" centres, typically in arterial locations, comprising a cluster of mostly freestanding, large-format "big box" stores, with ample surface parking adjacent to the stores and throughout the centre. Tenant mixes tend to reflect anchors such as discount department stores, furniture/home furnishings, home improvement/hardware, electronics, office supplies, cinemas, fashion outlets, etc., with few smaller CRUs.

Grocery or Community Centre

Mid-size to larger enclosed or unenclosed centres with a community-oriented focus, offering products and services for daily needs, but with an expanded soft goods and services component. Anchors often include supermarkets, drugstores, discount department stores and similar outlets, but can also include "big box" outlets in categories such as apparel, home improvements, electronics and others.

Neighbourhood or Strip Centre

Smaller to mid-size unenclosed centres, intended for convenience shopping for the residents of the surrounding neighbourhood. These centres are often anchored by smaller supermarkets, drugstores, discount stores, etc., with a mix of smaller, attached retailers.

Multi-Family

High-Rise

Multifamily residential buildings with comparatively high densities, typically exceeding four stories in height and including elevators. These commonly offer concrete construction and can have amenities such as underground parking, fitness rooms, indoor or outdoor pools, tennis courts, social rooms, etc.

Low-Rise

Lower-density multifamily residential buildings, typically comprising four stories or fewer, with or without elevators. These can offer concrete or wood frame construction and generally have surface parking with few building amenities.

Hotels

Urban Full Service

Fully-featured branded hotels offering an extensive suite of services and amenities, such as food and beverage services, conference centres/meeting rooms, fitness/activity centres, and valet and concierge services

Select Service

Hotels that offer mid-range accommodations with a selection of added services and amenities, but to a notably lower extent compared to full service facilities

Limited Service

Hotels that offer affordable accommodation with comparatively limited additional features and amenities, typically excluding food and beverage services



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